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SUBJECT: BRAZILIAN CONGRESS INVESTIGATES CORRUPTION
ALLEGATIONS -- A PRIMER ON THE ROLE OF CPI'S

REF: A. BRASILIA 1494

[B](#). BRASILIA 1544

[C](#). BRASILIA 1622

[D](#). BRASILIA 1631

[E](#). BRASILIA 1819

[F](#). BRASILIA 1867

[G](#). BRASILIA 1849

[1](#)1. SUMMARY. A series of interlocking and expanding corruption scandals (reftels) that have engulfed the Brazilian government and President Lula da Silva's Workers' Party (PT) since May has led to the establishment of three separate, but closely related, Congressional Inquiry Committees (CPIs): the Brazilian Postal Service CPI; the Bingo Houses CPI; and the vote-buying scheme CPI. Although divided due to disagreements between the government and the opposition, the investigations conducted by the three committees have a common purpose and are expected to work concomitantly. Post will track the developments of the CPIs and follow with regular updates on the corruption scandals. END SUMMARY.

THE ROLE OF A CONGRESSIONAL INQUIRY COMMITTEE (CPI)

[1](#)2. The Congressional Inquiry Committee (CPI) is the only body within the Brazilian Congress that has subpoena powers when investigating allegations against its members. A CPI has the same investigative powers as any judicial authority. However, it cannot establish penalties, and must route its final report to the appropriate judicial organ. A CPI can be unicameral or bicameral and must investigate a specific issue over a set period of time, which can be extended until the end of the legislature within which the CPI was created. Each committee is composed of a president, vice-president, rapporteur, and a varying number of members from most of the parties, depending on the CPI's focus. Herewith is a primer -- the CPIs involved in investigating current scandals:

THE FIRST CPI: INVESTIGATING THE POSTAL SERVICE & MORE

[1](#)3. Purpose: To investigate the causes and consequences of the corruption allegations in the Brazilian Postal Service (reftels). Even though the original purpose of this CPI was to investigate the corruption scheme in the Postal Service, in practice, it is investigating all corruption allegations that have emerged during the last few months. This is largely due to its broad mandate and because it has been active longer than the other two CPIs.

Background: The May 15 edition of Brazil's newsmagazine VEJA revealed a corruption scheme involving the head of the Postal Service's Contracting Department, Mauricio Marinho. Caught on tape negotiating bribes, Marinho pointed out that he was politically connected to Deputy Roberto Jefferson, now former president of the PTB party (an ally in President Lula's governing coalition). Soon after the publication of the article, the PTB-connected head of the Brazilian Reinsurance Institute (IRB) revealed that he had been pressured by Jefferson to skim money from the IRB and to funnel it to PTB campaign coffers (ref A).

Type: Bicameral (16 Senators and 16 Deputies)

Set up: June 9, 2005

President: Senator Delcidio Amaral (PT-MS)

Rapporteur: Deputy Osmar Serraglio (PMDB-GO)

Latest developments: In a television interview, former PT treasurer Delubio Soares acknowledged that he had received approximately U\$16 million in loans from Marcos Valerio -- an advertising executive accused of being the party's "bagman" -- which were used to pay the PT's campaign bills for 2002 and 2004. The money was never recorded on the party's accounting books. On July 18, Soares confessed to the violation of electoral regulations, but refused to admit to criminal allegations of corruption with money taken from state-owned companies and denied the existence of a

vote-buying scheme. However, bank records being examined by the CPI showed that the PT and other parties members withdrew more than US\$12 million since 2003 from bank accounts belonging to Marcos Valerio (septel discussed this development in more detail).

SECOND CPI: THE BINGO HOUSES

14. Purpose: To investigate the use of bingo houses for money laundering purposes, and the relationship of these houses with organized crime and illegal campaign financing.

Background: In February 2004, a scandal involving Waldomiro Diniz, Casa Civil's Chief of Congressional Relations and one of former Presidential Chief of Staff Jose Dirceu's closest aides, broke out as a numbers racketeer, Carlinhos Cachoeira ("Charlie Waterfall"), released a clandestine video tape of his conversation with Diniz in July 2002. The tape revealed Diniz trying to extort a "side payment" bribe to maintain Cachoeira's bingo and lottery operations in Rio de Janeiro and soliciting illegal campaign contributions. Last year, the PT refused to assign members to a CPI, arguing that this was solely a police matter. Consequently, the CPI, though approved, was not established until recently when the Supreme Court ruled that parties must name members for an approved CPI.

Type: Unicameral (15 Senators)

Set up June 29, 2005

President: Senator Efraim Morais (PFL-PB)

Vice-President: Senator Mozarildo Cavalcanti (PTB-RR)

Rapporteur: Senator Garibaldi Alves Filho (PMDB-RN)

Latest developments: Cachoeira, the first witness called before the CPI, testified that Diniz had operated alone and had no ties with Jose Dirceu. Cachoeira also stated that Diniz had lied about the bribe being for Geraldo Magela's (PT-DF) 2002 governor went directly into Diniz's pockets. Opposition members of the CPI complained that Cachoeira was "covering up" for Dirceu.

THIRD CPI: THE VOTE-BUYING SCHEME

15. Purpose: To investigate two alleged vote-buying schemes: the current scandal involving the PT and other parties from the governing coalition, and another vote-buying scheme for the "reelection bill" during the Cardoso administration.

Background: In a testimony before the Chamber's Ethics Committee, PTB Congressman Jefferson alleged that over the past two years members of the PT party had been paying monthly bribes to buy votes in Congress. Jefferson stated that the vote-buying scheme was controlled by the PT's former treasurer Delubio Soares, and its former Secretary General, Silvio Pereira, with the blessing of PT's former President Jose Genoino and former Lula's Chief of Staff Jose Dirceu (ref B).

Type: Bicameral (18 Senators and 18 Deputies)

Set up: July 20, 2005

President: Senator Amir Lando (PMDB-RO)

Rapporteur: Deputy Ibrahim Abi-Ackel (PP-MG)

Latest developments: As noted in paragraph 3, the separate CPI on postal corruption has already initiated and heard testimony that relates to the vote bribe allegations. The governing coalition maneuvered to control the key seats of this CPI to try to protect Lula, the PT, and the administration from collateral damage, and was successful in getting former Social Security Minister Amir Lando elected as president of the committee.

FOCUS ON CORRUPTION: OTHER DEVELOPMENTS

16. In a parallel investigation, the Federal Public Prosecutor's Office uncovered a scheme by which Marcos Valerio's companies borrowed approximately US\$17 million from private and state-owned banks using contracts with state companies (such as the Postal Service) as collateral. According to Valerio's testimony to the Prosecutor's Office, the money was given to the PT to finance its electoral campaigns and other allied parties, but he denied the payment of monthly bribes. Valerio also stated that former Chief of Staff Jose Dirceu knew about the scheme to funnel funds from loans backed by state-owned companies to the Workers' Party (PT), and Valerio also surrendered a list of persons who were authorized to make withdrawals of money loaned to the PT (see

septel). The opposition is seeking sanctions against the Workers' Party, including the blocking of public party-building funds and the cancellation of the party's registry with the electoral authority.

WHO'S WHO IN THE CPI'S

- Jose Dirceu (PT): former Chief of Staff and deputy. Accused of approving the vote-buying scheme; could be summoned to testify before the three CPIs.
- Jose Genoio (PT): former PT president. Accused of approving the vote-buying scheme; was replaced by Education Minister Tarso Genro as PT president.
- Delubio Soares (PT): former PT treasurer. Accused of controlling the vote-buying scheme; was replaced by Deputy Jose Pimentel.
- Silvio Pereira (PT): former PT secretary-general. Accused of controlling the vote-buying scheme; was replaced by former Labor Minister Ricardo Berzoini.
- Luis Gushiken (PT): Communications Secretary. Lost his rank as cabinet minister and is accused of giving benefits to one of Valerios' companies in a public bid.
- Roberto Jefferson (PTB): former PTB party president, and deputy. After being accused of heading the corruption scheme in the Postal Service and the Brazilian Reinsurance Institute, he accused PT members of paying monthly bribes to buy votes in Congress.
- Mauricio Marinho: former head of the Postal Service's Contracting Department. Caught on tape negotiating bribes; alleged that he was politically connected to Deputy Roberto Jefferson.
- Marcos Valerio: advertising executive in Belo Horizonte. Accused of being the "bagman"; transferred cash to PT campaign coffers and is accused of paying monthly bribes to members of Congress.
- Fernanda Somaggio: Valerio's former-secretary and principal witness against him.
- Waldomiro Diniz: former Chief of Congressional Relations of the Casa Civil. Caught on tape soliciting bribes from a numbers racketeer.

Comment:

17. (SBU) The Brazilian congress is now utterly absorbed by the scandal investigations. That, coupled with the fragility of the President's coalition in the legislature and his lack of political clout there, make progress unlikely on many substantive agenda items (with the exception, perhaps, of political reform) from now until the 2006 elections. But it is institutionally important to the Congress) and to Brazil as a whole) that the CPIs manage to produce credible results in their investigations of corruption allegations among not only the GOB and PT officials, but implicated congressmen as well. We will monitor the key investigation developments and report them regularly in septels to follow.

MANGANIELLO